

A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES



*Connie K. Nass
Auditor of State*

Volume III, Issue II
June 30, 2005

www.in.gov/auditor



Auditor of State

Connie Kay Nass

TELEPHONE (317) 232-3300
FACSIMILE (317) 232-6097
<http://www.in.gov/auditor>

To my fellow Indiana Citizens:

Thank you for taking the time to read this 10th semi-annual Report to Indiana Citizens on the State's Finances. My office prepares this Report to give Indiana Citizens a better understanding of Indiana government's true financial condition. The timing of this report gives you the final numbers for the fiscal year 2005, which was the second year of the budget passed by the General Assembly in 2003. The new budget passed in April of this year took effect on July 1, 2005, and runs through the end of the 2007 fiscal year, on June 30, 2007.

What information can you learn from this Report? Consider the following:

The good news: State Government's bottom line, what is called the "True Surplus" in this Report, while still at a negative \$27 million, has improved its position by \$230 million since the end of the prior fiscal year. This is the first year since 1999 when Indiana government's fiscal picture actually improved from the prior fiscal year.

The bad news: Indiana government's total cash and investment balances continued to decline, finishing the fiscal year \$142 million lower than one year ago. However, the total cash and investment balances did rebound \$1.432 billion above their November month-end low, a larger turnaround than in any of the prior 5 years.

More bad news: After decades of never relying upon payment delays to prop up the Surplus more than one year at a time, the 2005 Fiscal Year was the fourth in a row to postpone payments to schools and local governments into the next fiscal year.

More good news: After years of disappointment, income tax revenues skyrocketed, exceeding expectations and returning to their turn of the century form, while sales tax revenues have continued their slow and steady growth. The two call to mind Aesop's fable of the tortoise and the hare. May our income tax "hare" continue its rapid pace!

In addition to the normal Surplus description on page 2, page 3 examines the year-to-year change to the True Surplus, illustrating the spending of the 1999 \$2 billion Surplus. Pages 4 and 5 list local tax rates and distributions, county by county, giving you an opportunity to examine tax rate and distribution differences between counties. Finally, pages 6 and 7 again include our revenue analysis for the 2005 fiscal year, plus a comparison of various tax rates from bordering states.

If you have questions or comments about this publication or its contents, please e-mail me at comments@audlan.state.in.us, or call (317) 232-3300. You may also view this report along with other pertinent information on our website at www.in.gov/auditor.

Sincerely,
Connie Nass
Auditor of State

Cash and Investment Balances (all funds) as of June 30, 2005

	Surplus Accounts	Non-Surplus Accounts	Total
General Fund Cash and Investments	\$ 416,392,643	\$ 309,296,139	\$ 725,688,782
Rainy Day Fund	316,474,803		316,474,803
Medicaid Reserve Fund	24,000,000		24,000,000
Total General Fund Cash and Investments	756,867,446	309,296,139	1,066,163,585
Non General Fund Cash and Investments	\$ -	\$ 2,078,579,919	\$ 2,078,579,919
Grand Total All Funds Cash and Investments	\$ 756,867,446	\$ 2,387,876,058	\$ 3,144,743,504

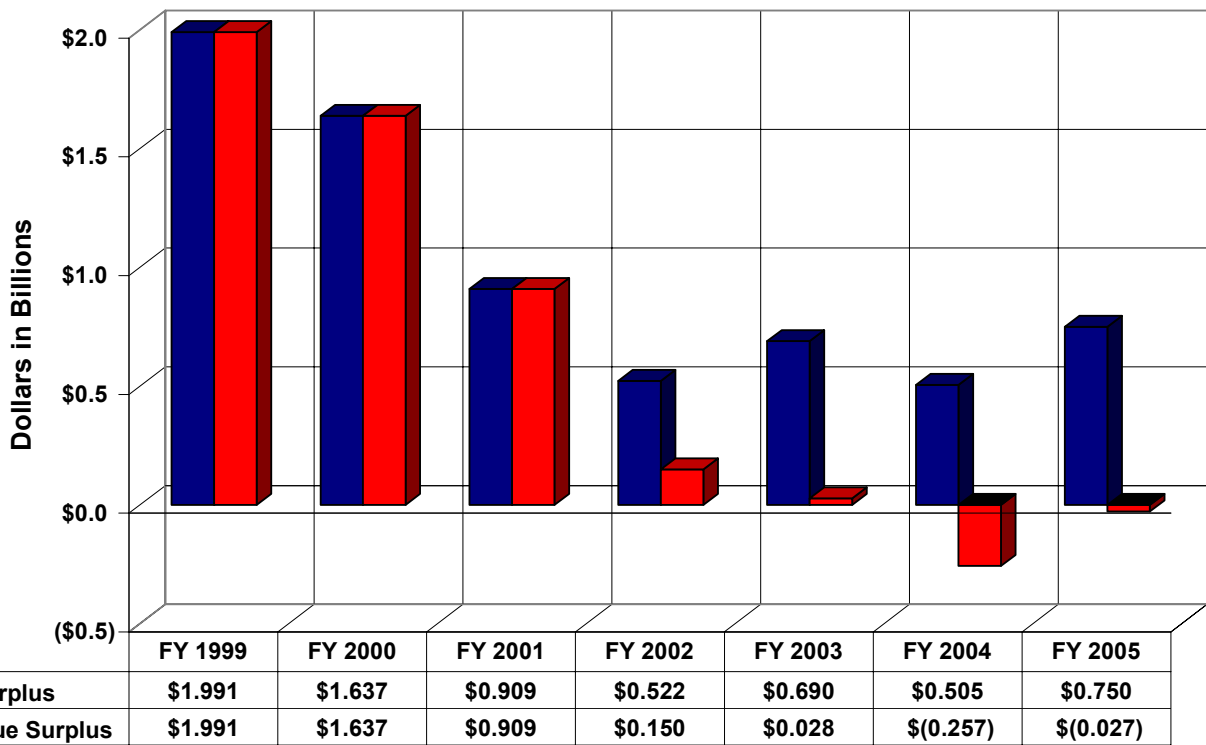
What is the True Fiscal Condition of Indiana State Government's Operating Accounts?

The State **Surplus** is computed at the end of each fiscal year, June 30, when State government examines whether any money remains in the General Fund, its operating account. The Surplus often reflects the cash that the State government has on hand at fiscal year end after its ongoing operating expenses for the year have been paid. But when money is borrowed from other State funds to fund the State's operations, or payments are delayed beyond the fiscal year end, the Surplus no longer reflects actual unobligated cash on hand.

The **True Surplus** depicted below gives a picture of the State's actual bottom line at fiscal year end. The True Surplus calculation accounts for payment delays to schools, universities, and counties, cities, and towns, and also acknowledges an interest free loan to the General Fund from the Public Deposit Insurance Fund. This is the true fiscal position of State government's operating accounts. In recent years the difference between the two reported balances has been significant as shown below.

The True Surplus for fiscal year 2005 rebounded significantly, almost reaching positive territory after ending fiscal year 2004 in an unprecedented deficit position. Certain components of the Surplus, such as the Rainy Day Fund and General Fund, ended FY 2005 with their highest combined balance in 4 years. Fiscal year 2005 was the 4th consecutive year that payment delays were used to prop up the Surplus. Prior to FY2002, payment delays were never used more than one year at a time.

**General Fund and Property Tax Replacement Fund
Comparison of Surplus and True Surplus**



	Dollars in Thousands						
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
General Fund Surplus	\$ 1,191,083	\$ 832,737	\$ 18,628		\$ 136,565	\$ 200	\$ 118,758
Reserve for Tuition Support	255,000	265,000	265,000	\$ 265,000	305,000	290,500	290,500
Rainy Day Fund	524,703	539,712	525,114	257,006	248,142	214,522	316,475
Build Indiana Fund Loan	20,000						
Medicaid Reserve			100,000				24,000
Surplus	\$ 1,990,786	\$ 1,637,448	\$ 908,742	\$ 522,006	\$ 689,706	\$ 505,222	\$ 749,733
Payment Delays							
Higher Education				(94,931)	(96,346)	(98,226)	(101,871)
Tuition Support				(277,289)	(289,910)	(290,514)	(299,124)
Property Tax Replacement Credit					(275,552)	(323,361)	(325,799)
Loan Payable to Public Deposit Insurance Fund						(50,000)	(50,000)
True Surplus	\$ 1,990,786	\$ 1,637,448	\$ 908,742	\$ 149,786	\$ 27,899	\$ (256,879)	\$ (27,061)

What Happened to the \$2 Billion Surplus?

What Happened to the \$2 Billion Surplus?

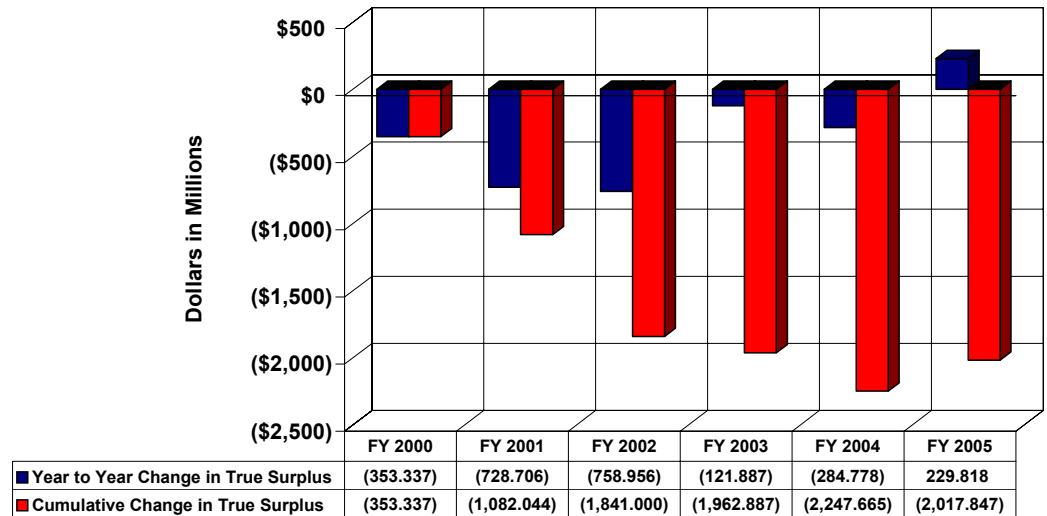
As of June 30, 1999, the "State Surplus," was at that time the same as the "True Surplus," of \$1.991 billion as shown by the graph on page 2. By June 30, 2004, the True Surplus had dropped below zero to a \$257 million deficit, before rebounding this year to a True Surplus of negative \$27 million (refer to the chart on page 2). **The chart in the middle of this page shows the gradual elimination of the nearly \$2 billion True Surplus over 5 years.** Fiscal Year 2005 was the first year of True Surplus growth since Fiscal Year 1999. In the chart below, the blue bar represents the change in True Surplus each fiscal year. The red bar shows the cumulative change in True Surplus from June 30, 1999 to date. To illustrate, the True Surplus decreased by \$353 million in FY 2000 (FY2000 blue bar) and \$729 million in FY 2001 (FY2001 blue bar) for a cumulative decrease of \$1.082 billion (FY2001 red bar). The cumulative decrease in True Surplus from June 30, 1999 to June 30, 2005 is \$2.018 billion. **There was a \$230 million improvement from FY2004 to FY2005.** The \$2.248 billion decline in the True Surplus from FY1999 to FY2004 was a result of the State spending more than it received in revenue in the General Fund for each of those five fiscal years. To arrive at the True Surplus, amounts withheld as payment delays or taken as loans are deducted from the Surplus figure.

Cash and Investment Balance by Month

The graph at the bottom of this page shows the monthly total cash and investment balance for all State funds, which include the General Fund and all dedicated accounts, from June 30, 2000 to June 30, 2005. The blue line indicates the total balance. **The high point** on this graph occurred on June 30, 2000 when the balance was \$5.370 billion, and the General Fund was solvent. **The low point** of \$1.713 billion occurred on November 30, 2004. The June 30, 2005 balance was \$3.145 billion.

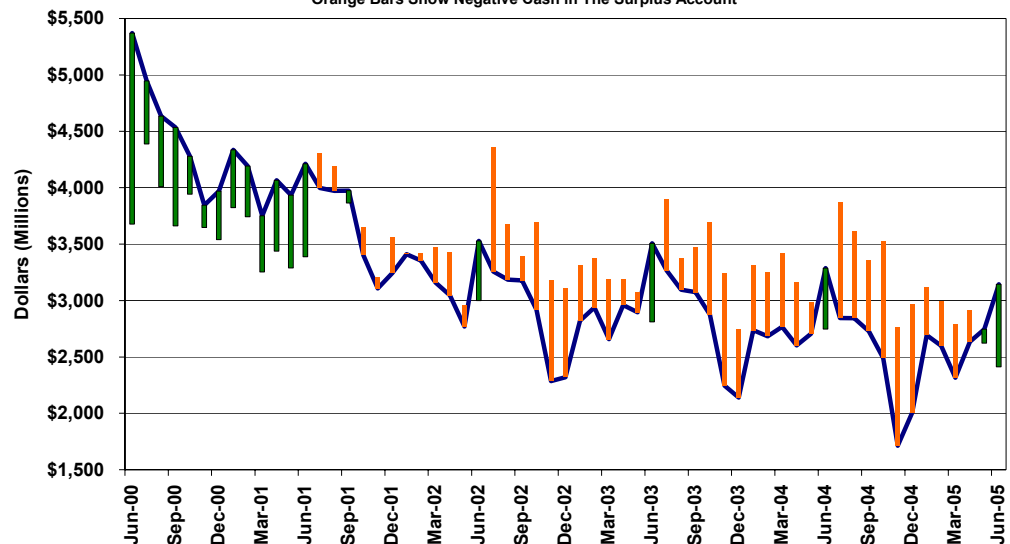
The green vertical bars represent positive cash month-end balances in the surplus accounts, the State's operating checking account, while orange vertical bars represent negative balances. Orange bars mean the General Fund was borrowing money from other dedicated State accounts in order to pay the ongoing operating expenses of state government. **The General Fund ended every month since July 2001 in a negative cash position with the exceptions of September 2001 and May 2005, as well as June 30 each year when the state closes its books.** Before July 2001, you have to go all the way back to December 1993 to find another month-end where the General Fund had a negative balance.

Spending a \$2 Billion Surplus



State of Indiana Cash and Investment Balance Analysis

Blue Line Shows Total Cash and Investments
Green Bars Show Positive Cash in The Surplus Account
Orange Bars Show Negative Cash in The Surplus Account



How Does Your County Compare Among All 92 Counties?

For each of Indiana's 92 counties, this table provides population and population rank, food and beverage tax and county innkeepers tax rates, local option income tax type with resident and non-resident rates, as well as gaming revenue, and property tax replacement and homestead credit distributions for the 2005 fiscal year. The food and beverage tax rates listed are those enacted as of July 8, 2005.

The following symbols are used to designate different types of local option income tax:

CA - County Adjusted Gross Income Tax

CE - County Economic Development Income Tax

CO - County Option Income Tax

Lake, Posey, and Sullivan Counties are the only three counties that levy no local option income tax.

	2000		Local Tax Rates						Riverboat Distributions			Property Tax
	Census		Food & Beverage Tax Rate	County Innkeepers Tax Rate	Local Option Income Tax			Admission Tax	Wagering Tax	Revenue Sharing	Homestead Credit Distributions	
Government	Number	Rank			Type	Resident	Nonresident					
1 Adams	33,625	47			CO/CE	1.1240%	0.6740%			\$ 212,031	\$ 9,340,268	
2 Allen	331,849	3	1%	6%	CO/CE	1.0000%	0.5500%			\$ 2,092,554	\$ 103,845,436	
3 Bartholomew	71,435	21		5%	CA	1.0000%	0.2500%			\$ 450,451	\$ 29,659,237	
4 Benton	9,421	88			CA/CE	1.2900%	0.5400%			\$ 59,406	\$ 4,197,105	
5 Blackford	14,048	83			CA/CE	1.3600%	0.6100%			\$ 88,583	\$ 3,454,284	
6 Boone	46,107	30	1%	5%	CO	1.0000%	0.2500%			\$ 290,739	\$ 14,390,031	
7 Brown	14,957	81		5%	CA/CE	1.2500%	0.5000%			\$ 94,315	\$ 4,195,816	
Nashville			1%									
8 Carroll	20,165	73			CA/CE	1.1000%	0.3500%			\$ 127,155	\$ 6,356,399	
9 Cass	40,930	35			CA/CE	1.5000%	0.7500%			\$ 258,094	\$ 10,729,201	
10 Clark	96,472	17		4%	CA/CE	1.5000%	0.7500%			\$ 608,327	\$ 36,785,604	
11 Clay	26,556	60			CA	1.2500%	0.2500%			\$ 167,455	\$ 6,393,712	
12 Clinton	33,866	46			CA/CE	1.5000%	0.7500%			\$ 213,550	\$ 9,064,059	
13 Crawford	10,743	86		5%	CA/CE	1.0000%	0.5000%			\$ 67,743	\$ 2,058,880	
14 Daviess	29,820	54		5%	CA/CE	1.7500%	0.7500%			\$ 188,037	\$ 7,656,796	
15 Dearborn	46,130	29			CO	0.6000%	0.1500%	\$ 7,336,785			\$ 15,520,790	
Lawrenceburg								\$ 7,336,785	\$ 17,686,963			
16 Decatur	24,555	64			CA/CE	1.3300%	0.5800%			\$ 154,837	\$ 7,598,823	
17 Dekalb	40,285	36			CA/CE	1.5000%	0.7500%			\$ 254,027	\$ 12,536,241	
18 Delaware	118,769	12	1%	5%	CO/CE	1.0500%	0.6000%			\$ 748,927	\$ 35,933,565	
19 Dubois	39,674	37		4%	CO/CE	1.0000%	0.5500%			\$ 250,174	\$ 13,369,216	
20 Elkhart	182,791	6		3%	CA/CE	1.5000%	0.5000%			\$ 1,152,633	\$ 63,083,343	
21 Fayette	25,588	62			CO/CE	1.3700%	0.6200%			\$ 161,351	\$ 7,619,188	
22 Floyd	70,823	23		4%	CA/CE	1.1500%	0.6500%			\$ 446,592	\$ 21,845,577	
23 Fountain	17,954	77			CA/CE	1.1000%	0.3500%			\$ 113,213	\$ 4,508,964	
24 Franklin	22,151	67			CA/CE	1.2500%	0.5000%			\$ 139,678	\$ 5,166,894	
25 Fulton	20,511	71		3%	CA/CE	1.4300%	0.6800%			\$ 129,337	\$ 5,971,808	
26 Gibson	32,500	50			CE	0.5000%	0.5000%			\$ 204,937	\$ 11,442,248	
27 Grant	73,403	20		5%	CO/CE	1.2500%	0.5000%			\$ 462,860	\$ 19,093,217	
28 Greene	33,157	49			CO	1.0000%	0.2500%			\$ 209,079	\$ 6,567,239	
29 Hamilton	197,295	5	1%	3%	CO	1.0000%	0.2500%			\$ 1,244,091	\$ 84,079,133	
Carmel			1%									
Noblesville			1%									
30 Hancock	55,391	25	1%	4%	CA/CE	1.1500%	0.4000%			\$ 349,281	\$ 16,211,354	
31 Harrison	34,325	45		4%	CA/CE	1.0000%	0.5000%	\$ 11,291,523	\$ 11,767,667		\$ 8,420,241	
32 Hendricks	104,093	16	1%	5%	CA/CE	1.4000%	0.6500%			\$ 656,384	\$ 33,098,498	
Avon			1%									
Brownsburg			1%									
Plainfield			1%									
33 Henry	48,508	27	1%	5%	CO	1.0000%	0.2500%			\$ 305,879	\$ 12,521,349	
34 Howard	84,964	18		5%	CO/CE	0.9000%	0.3750%			\$ 535,761	\$ 31,446,032	
35 Huntington	38,075	39		5%	CA/CE	1.2500%	0.5000%			\$ 240,091	\$ 11,237,879	
36 Jackson	41,335	34		5%	CA/CE	1.6000%	0.7500%			\$ 260,648	\$ 12,312,528	
37 Jasper	30,043	53			CA/CE	1.2500%	0.5000%			\$ 189,443	\$ 10,843,987	
38 Jay	21,806	68			CA/CE	1.5000%	0.7500%			\$ 137,503	\$ 6,262,882	
39 Jefferson	31,705	51		5%	CE	0.3500%	0.3500%			\$ 199,924	\$ 8,289,597	
40 Jennings	27,554	56		5%	CA/CE	1.2500%	0.5000%			\$ 173,748	\$ 5,646,445	
41 Johnson	115,209	13	1%		CA	1.0000%	0.2500%			\$ 726,478	\$ 35,004,489	
42 Knox	39,256	38			CO/CE	1.0000%	0.6250%			\$ 247,538	\$ 9,912,700	
43 Kosciusko	74,057	19		5%	CO/CE	1.0000%	0.4750%			\$ 466,984	\$ 23,379,516	
44 LaGrange	34,909	44		5%	CA/CE	1.4000%	0.6500%			\$ 220,127	\$ 9,452,277	
Shipshewana			1%									
45 Lake	484,564	2		5%	NONE			\$ 17,359,007			\$ 186,188,207	
East Chicago								\$ 5,650,368	\$ 13,549,654			
Gary								\$ 6,318,571	\$ 12,269,626			
Hammond								\$ 5,390,069	\$ 13,749,023			

How Does Your County Compare Among All 92 Counties? (Continued)

Riverboat admission and wagering tax distributions reflect those amounts distributed to local governments. The General Assembly has designated the first \$33 million of riverboat wagering tax receipts as revenue sharing distributions to non-riverboat counties and cities based on population. The Revenue Sharing column shows the amount of riverboat revenue sharing money sent to each county for distribution. Property tax replacement and homestead credit money is sent to counties to replace property tax credits given to property taxpayers. Counties distribute the money to governmental entities as property tax distributions.

		2000		Local Tax Rates					Riverboat Distributions			Property Tax
		Census		Food & Beverage	County Innkeepers	Local Option Income Tax			Admission	Wagering	Revenue	Replacement & Homestead Credit
		Population				Type	Rate					
	Government	Number	Rank	Tax Rate	Tax Rate	Type	Resident	Nonresident	Tax	Tax		Distributions
46	LaPorte	110,106	14		5%	CA/CE	0.9500%	0.7000%	\$ 4,067,152			\$ 38,335,196
	Michigan City								\$ 4,067,152	\$ 9,556,783		
47	Lawrence	45,922	31			CA	1.0000%	0.2500%			\$ 289,572	\$ 10,568,693
48	Madison	133,358	10	1%	5%	CO/CE	1.2500%	0.5000%			\$ 840,921	\$ 33,519,306
49	Marion	860,454	1	2%	9%	CO	0.8000%	0.2000%			\$ 5,425,800	\$ 302,581,131
50	Marshall	45,128	32			CA	1.2500%	0.2500%			\$ 284,565	\$ 14,720,086
51	Martin	10,369	87			CO/CE	1.0000%	0.4000%			\$ 65,384	\$ 2,270,415
52	Miami	36,082	41			CO/CE	1.0400%	0.5900%			\$ 227,524	\$ 9,219,092
53	Monroe	120,563	11		5%	CO	1.0000%	0.2500%			\$ 760,239	\$ 32,426,154
54	Montgomery	37,629	40		3%	CO	1.0000%	0.2500%			\$ 237,279	\$ 11,688,227
55	Morgan	66,689	24			CA/CE	1.2700%	0.5200%			\$ 420,524	\$ 16,588,870
	Martinsville			1%								
	Mooresville			1%								
56	Newton	14,566	82			CA	1.0000%	0.2500%			\$ 91,849	\$ 5,133,319
57	Noble	46,275	28			CA/CE	1.5000%	0.7500%			\$ 291,798	\$ 14,258,735
58	Ohio	5,623	92		5%	CA	1.0000%	0.2500%	\$ 3,091,649			\$ 1,586,373
	Rising Sun								\$ 3,091,649	\$ 6,595,316		
59	Orange	19,306	74			CA/CE	1.2500%	0.5000%			\$ 121,739	\$ 4,442,912
60	Owen	21,786	69			CA/CE	1.3000%	0.5500%			\$ 137,377	\$ 3,848,351
61	Parke	17,241	78		5%	CA/CE	1.5000%	0.7500%			\$ 108,717	\$ 4,007,409
62	Perry	18,899	75		5%	CO/CE	1.0000%	0.6250%			\$ 119,172	\$ 4,526,456
63	Pike	12,837	85			CE	0.4000%	0.4000%			\$ 80,947	\$ 4,379,400
64	Porter	146,798	9		3%	CE	0.5000%	0.5000%			\$ 925,670	\$ 46,225,647
65	Posey	27,061	59			NONE					\$ 170,640	\$ 14,630,408
66	Pulaski	13,755	84			CA/CE	1.7300%	0.6800%			\$ 86,735	\$ 4,926,507
67	Putnam	36,019	42			CA/CE	1.2500%	0.5000%			\$ 227,127	\$ 8,757,982
68	Randolph	27,401	57			CA/CE	1.5000%	0.7500%			\$ 172,784	\$ 7,182,500
69	Ripley	26,523	61			CA/CE	1.3800%	0.6300%			\$ 167,247	\$ 6,598,541
70	Rush	18,261	76			CA/CE	1.2500%	0.5000%			\$ 115,149	\$ 6,269,945
71	St. Joseph	265,559	4		6%	CO/CE	0.8000%	0.3500%			\$ 1,674,546	\$ 78,084,902
72	Scott	22,960	66		5%	CO/CE	1.1600%	0.4100%			\$ 144,780	\$ 4,869,743
73	Shelby	43,445	33	1%	5%	CA/CE	1.2500%	0.5000%			\$ 273,953	\$ 14,210,958
74	Spencer	20,391	72		3%	CO/CE	0.8000%	0.5750%			\$ 128,580	\$ 8,109,125
75	Starke	23,556	65			CA/CE	1.0000%	0.7500%			\$ 148,538	\$ 5,653,733
76	Steuben	33,214	48		2%	CA/CE	1.2900%	0.5400%			\$ 209,439	\$ 12,889,936
77	Sullivan	21,751	70			NONE					\$ 137,156	\$ 6,492,338
78	Switzerland	9,065	89		5%	CO	1.0000%	0.2500%	\$ 5,155,698	\$ 5,111,269		\$ 1,704,381
79	Tippecanoe	148,955	8		5%	CO/CE	1.0000%	0.5500%			\$ 939,272	\$ 43,504,713
80	Tipton	16,577	80			CA/CE	1.3300%	0.5800%			\$ 104,530	\$ 5,171,618
81	Union	7,349	91			CA/CE	1.5000%	0.5000%			\$ 46,341	\$ 1,922,918
82	Vanderburgh	171,922	7	1%	6%	CO	1.0000%	0.2500%	\$ 2,136,285			\$ 53,480,239
	Evansville								\$ 2,136,285	\$ 4,760,340		
83	Vermillion	16,788	79			CE	0.1000%	0.1000%			\$ 105,861	\$ 5,216,288
84	Vigo	105,848	15		3%	CA/CE	1.2500%	0.7500%			\$ 667,450	\$ 31,245,407
85	Wabash	34,960	43		5%	CA/CE	1.5000%	0.7500%			\$ 220,449	\$ 10,324,676
86	Warren	8,419	90			CA/CE	1.2500%	0.5000%			\$ 53,088	\$ 2,979,754
87	Warrick	52,383	26			CE	0.5000%	0.5000%			\$ 330,314	\$ 17,408,156
88	Washington	27,223	58			CA/CE	1.5000%	0.7500%			\$ 171,861	\$ 5,668,440
89	Wayne	71,097	22		5%	CA/CE	1.5000%	0.5000%			\$ 448,319	\$ 20,766,702
90	Wells	27,600	55			CA/CE	1.4500%	0.7000%			\$ 174,038	\$ 7,961,964
91	White	25,267	63		3%	CA/CE	1.2500%	0.5000%			\$ 159,327	\$ 9,165,898
92	Whitley	30,707	52			CA/CE	1.2329%	0.4829%			\$ 193,630	\$ 9,184,706
Total		6,095,061							\$84,428,978	\$95,046,641	\$33,000,000	\$ 1,947,399,303

General and Property Tax Replacement Fund Revenue Trends (Cash Basis)

A Detailed Analysis of the Four Primary Revenue Sources Funding State Government

State Revenue Trends

The graph titled “General Fund and Property Tax Replacement Fund Revenue by Type” shows data for the last six fiscal years of revenues supporting the general operations of Indiana state government. Total revenues declined in FY2001 and FY2002. The **increases in revenues** since FY2003 are in part attributable to an increase in the State sales tax rate effective December 1, 2002, the addition of riverboat wagering tax revenues as General Fund revenues, and increased receipts of income taxes as the economy started to improve.

Corporate and individual income tax revenues proved the most volatile in recent years, although year-to-year comparisons of corporate income taxes are problematic due to significant restructuring that occurred in 2002.

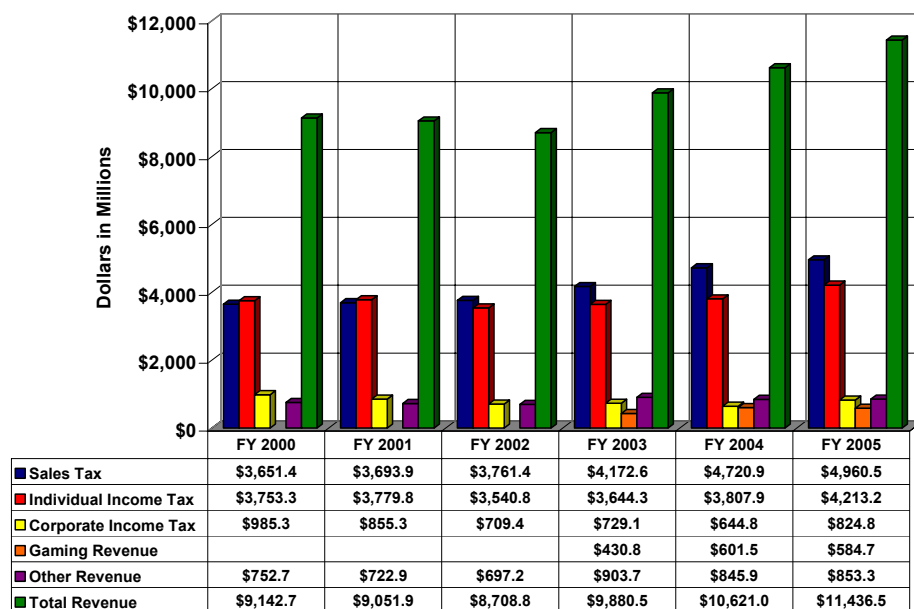
Individual income taxes actually dropped from FY2001 to FY2002, but rebounded in FY2005 with the most significant year-to-year growth of any of the “big four” tax revenue sources. Sales taxes proved by far the most stable revenue source, showing growth through the recession, even after taking into account the change in the rate from 5% to 6% in December 2002.

Tax Rates for Indiana and Adjacent States

The table on the right shows the comparative rates for personal income, sales, gasoline, and cigarette taxes of Indiana and its neighbors.

	Personal Income Tax Rate	State Sales Tax Rate	Gasoline Excise Tax Per Gallon	Cigarette Excise Tax Per Pack
Illinois	3%	6.25%	\$ 0.201	\$ 0.980
Indiana	3.4%	6.00%	\$ 0.180	\$ 0.555
Kentucky	2% - 6%	6.00%	\$ 0.185	\$ 0.300
Michigan	3.9%	6.00%	\$ 0.190	\$ 2.000
Ohio	0.712% - 7.185%	5.50%	\$ 0.280	\$ 1.250

General Fund and Property Tax Replacement Fund Revenue by Type



Corporate Income Tax

Corporate Income Tax revenues increased significantly in FY 2005. With only 2 ½ years of data after the 2002 Special Session restructuring of the corporate income tax, trend analysis is difficult. The third quarter of FY2005 (1/1/2005-3/31/2005) saw a negative revenue number because of tax refunds. As you can see, fourth quarter FY2005 revenues rebounded to \$432 million.

		Corporate Income Tax (Dollars in Millions)					
		FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1st Quarter		220.4	205.6	189.8	132.3	114.2	157.4
2nd Quarter		199.7	187.9	164.5	140.5	125.8	249.6
3rd Quarter		108.6	75.7	44.2	50.2	73.9	(14.2)
4th Quarter		456.6	386.1	310.9	406.1	330.9	432.0
Total		985.3	855.3	709.4	729.1	644.8	824.8

Riverboat Wagering Tax

Riverboat Wagering Taxes supporting the State’s General Fund are detailed in the chart to the right. Pages 4 and 5 of this Report include additional discussion of Gaming Revenues and their distribution to counties and municipalities. The FY2004 Riverboat Wagering Tax figure reflects a one-time catch up revenue payment made in conjunction with the onset of dockside gambling, which inflated FY2004 revenues. As a result, **the decline in total Riverboat Wagering revenues from FY2004 to FY2005 should not be taken as evidence of instability in that revenue source.**

		Riverboat Wagering Tax (Dollars in Millions)		
		FY 2003	FY 2004	FY 2005
1st Quarter		49.4	114.0	84.2
2nd Quarter		86.2	114.6	118.9
3rd Quarter		118.3	175.9	180.3
4th Quarter		176.9	197.0	201.3
Total		430.8	601.5	584.7

General and Property Tax Replacement Fund Revenue Trends (Cash Basis)

A Detailed Analysis of the Four Primary Revenue Sources Funding State Government

Individual Income Tax

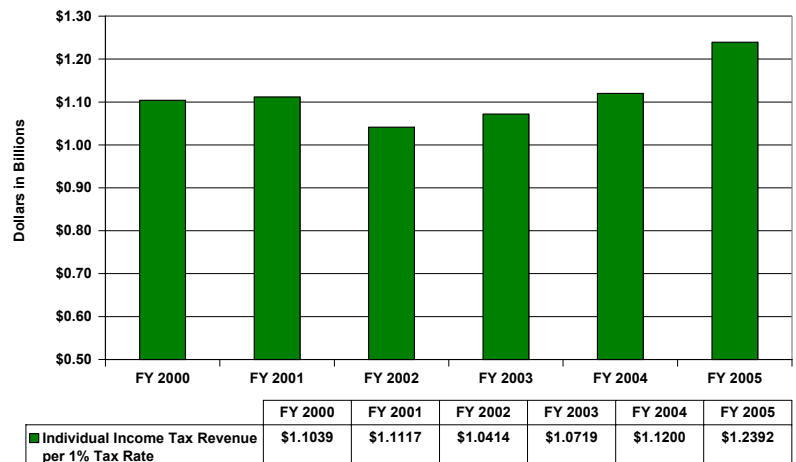
Indiana's Individual Income Tax rate has remained unchanged at 3.4% for several years. As a result, revenue trends for this source of revenue are most clearly demonstrated. **Fiscal Year 2005 shattered prior year records**, generating over \$4.2 billion, or \$1.24 billion for each 1% of individual income tax levied (see chart below the table at right).

In FY2005, individual income tax revenues **increased by 10.6%, or \$405.3 million**. In contrast, FY2002 individual income tax revenues were actually 6.3% less than FY2001, dropping by \$239 million in one year.

This change demonstrates the elasticity of individual income taxes as a revenue source. When economic times are good, the revenues come in strong and above forecast. But, as the chart to the right shows, when economic times are bad, individual income tax revenues not only fail to meet projections, they have actually fallen.

	Individual Income Tax (Dollars in Millions)					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1st Quarter	901.5	912.6	860.2	884.7	904.0	980.8
2nd Quarter	745.5	762.1	770.8	799.7	841.6	903.7
3rd Quarter	906.5	859.3	793.7	832.8	845.4	938.3
4th Quarter	1,199.8	1,245.8	1,116.1	1,127.1	1,216.9	1,390.4
Total	3,753.3	3,779.8	3,540.8	3,644.3	3,807.9	4,213.2

Individual Income Tax Revenue per 1% Tax Rate
(General Fund and Property Tax Replacement Fund Portion)



State Sales Tax

If the individual income tax is the hare of General Fund revenues, the state sales tax is the tortoise, demonstrating slow, strong, and steady growth over time. Even accounting for the 20% increase in the sales tax rate from 5% to 6% in December 2002, **State Sales Tax revenues by percent of tax levied have grown steadily each and every year since FY2000.**

Fiscal Year 2005 State Sales Tax receipts **exceeded FY2004 by 5.1%, or \$239.6 million**. Each percentage point of the sales tax generated \$40 million more for the General Fund than the prior year (\$826.8 million in FY2005). That follows growth per percentage point of \$8.5 million in FY2001, \$13.5 million in FY2002, \$7.3 million in FY2003, and \$27.2 million in FY2004.

Sales tax revenues continued to grow even through the recession when other revenues fell. **Sales tax revenues have been the most inelastic and dependable revenue source for the state's operating accounts in recent years.**

	Sales Tax (Dollars in Millions)					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
1st Quarter	928.1	903.9	953.1	978.9	1,172.8	1,247.5
2nd Quarter	877.1	895.3	942.3	945.6	1,152.0	1,202.2
3rd Quarter	936.9	970.1	933.3	1,111.7	1,193.1	1,251.4
4th Quarter	909.3	924.6	932.7	1,136.4	1,203.0	1,259.4
Total	3,651.4	3,693.9	3,761.4	4,172.6	4,720.9	4,960.5

Sales Tax Revenue per 1% Tax Rate
(General Fund and Property Tax Replacement Fund Portion)

